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Senate

The Senate met at 2 p.m. and was called to order by the Honorable MARK R. WARNER, a Senator from the Commonwealth of Virginia.

PRAYER

The Chaplain, Dr. Barry C. Black, offered the following prayer:

Let us pray.

How can we say thanks to You, gracious God, for the things You have done for us? You shower us with undeserved blessings, and You brought Your salvation to our fragile planet. The voices of 10 million angels couldn't express our gratitude. You alone deserve our praise.

We ask now that You would inspire and guide our lawmakers in their work today. Send out Your light to lead them to Your holy purposes. Lord, keep them from the fatigue of doubt, depression, and despair as You lead them to the buoyancy of hope. By Your sustaining grace may their hearts be steadied, purged of self, emptied of strain and stress, and filled with peace and poise. We pray in Your merciful Name. Amen.

PLEDGE OF ALLEGIANCE

The Honorable MARK R. WARNER led the Pledge of Allegiance, as follows:

> I pledge allegiance to the Flag of the United States of America, and to the Republic for which it stands, one nation under God, indivisible, with liberty and justice for all.

APPOINTMENT OF ACTING PRESIDENT PRO TEMPORE

The PRESIDING OFFICER. The clerk will please read a communication to the Senate from the President pro tempore (Mr. INOUYE).

The bill clerk read the following letter:

U.S. SENATE,
PRESIDENT PRO TEMPORE,
Washington, DC, September 20, 2010.

To the Senate:

Under the provisions of rule I, paragraph 3, of the Standing Rules of the Senate, I hereby appoint the Honorable MARK R. WARNER, a Senator from the Commonwealth of Virginia, to perform the duties of the Chair.

DANIEL K. INOUYE,
President pro tempore.

Mr. WARNER thereupon assumed the chair as Acting President pro tempore.

RECOGNITION OF THE ACTING MAJORITY LEADER

The ACTING PRESIDENT pro tempore. The Senator from Michigan is recognized.

SCHEDULE

Mr. LEVIN. Mr. President, today in the Senate, there will be a period of morning business until 3 p.m., with Senators permitted to speak therein for up to 10 minutes each. Following morning business, the Senate will resume consideration of the motion to proceed to S. 3454, the Department of Defense authorization bill.

As previously announced by the majority leader, there will be no rollcall votes during today's session of the Senate. The next vote will occur at 2:15 p.m. tomorrow, Tuesday, September 21. That vote will be on the motion to invoke cloture on the motion to proceed to the DOD authorization bill.

MEASURE PLACED ON THE CALENDAR—S. 3793

Mr. LEVIN. Mr. President, I understand that S. 3793 is at the desk and due for a second reading.

The ACTING PRESIDENT pro tempore. The clerk will read the title of the bill for the second time.

The bill clerk read as follows:

> A bill (S. 3793) to extend expiring provisions and for other purposes.

Mr. LEVIN. Mr. President, I object to any further proceedings with respect to the bill.

The ACTING PRESIDENT pro tempore. Objection is heard. The bill will be placed on the calendar.

Mr. LEVIN. Mr. President, I yield the floor.

The ACTING PRESIDENT pro tempore. The Senator from Arizona is recognized.

PRINCIPLES FOR ECONOMIC GROWTH

Mr. KYL. Mr. President, I would like to speak a bit about the two competing philosophies of economic growth. The first version I will discuss is the so-called Keynesian economics, which has been the basis of the Obama administration's economic policy since January 2009 and, I would add, with little to no success in reviving our economy and reducing unemployment.

Keynesian economics relies on the theory that in recessionary times, increased government spending can take the place of private sector activity, hence the administration's nearly $1 trillion stimulus package, the Cash for Clunkers Program and a litany of other government programs, transfer payments, and temporary tax credits. This administration's insistence on enacting these temporary Keynesian policies to stimulate consumption is misguided and has ultimately failed.

As the Wall Street Journal editorialized in a piece called ''The Obama Economy:''

> Never before has government spent so much and intervened so directly in credit allocation to spur growth, yet the results have been mediocre at best. In return for adding nearly $3 trillion in Federal debt in 2 years, we still have 14.9 million people unemployed. What happened?

Well, I will mention three problems with Keynesian economics that I think help to answer that question. First of all, someone without a job is not going to be fooled into spending more money because of a one-time payment that he or she received from the Federal Government. People only change their spending habits when they know they will have a greater consistent income

● This ''bullet'' symbol identifies statements or insertions which are not spoken by a Member of the Senate on the floor.

over time, such as when they receive a raise at work. In fact, the evidence has shown that people either save one-time rebates or shift future consumption forward but do not permanently increase their work effort or incentive to invest, which is what is needed to jump-start economic growth.

Second, Keynesian economics assumes the government has the foresight to determine in advance which spending programs would best create economic growth. Well, the obvious problem with this assumption is, Congress does not spend taxpayers' money wisely. We see time and time again how straightforward pieces of legislation get loaded up with special projects which are costly and of questionable value to the public. This has been one of the problems with the stimulus package.

Third, if the problem is lack of consumption and Americans are too broke to spend, how can the government spend for us? We are the government. It is our tax money that is being spent. We have to pay it back if it is borrowed.

The authors of a textbook entitled ''Economics: Public and Private Choice,'' write:

There are no free lunches. Regardless how they are financed, activities undertaken by the government will be costly. When governments purchase resources and other goods and services to provide rockets, education, highways, health care, and other goods, the resources used by the government will be unavailable to produce goods and services in the private sector. As a result, private-sector output will be lower.

In short, there is a major misconception that consumption fueled by government spending actually creates economic growth. It doesn't. It just moves money around. Taking it from the private sector to be spent by the government removes critical capital that is needed to create jobs.

I noticed, in catching up on reading some of the newspapers over the weekend, that Treasury Secretary Geithner weighed into this debate a little bit. Recall that over the last several weeks there has been a debate about whether we should prevent all taxes from going up or simply prevent a tax increase on the so-called middle class. The idea is that middle-class families spend whatever money they have available. That plays into this Keynesian economic notion that it advances spending so we should let them keep more of their money but that wealthier people—the people in the top two brackets—don't spend their money and, therefore, they do not contribute to economic growth. But of course it totally misses the point that money saved is money ultimately invested. If it is invested, it is either put in a bank, which can then lend more money to people who need to borrow or it is directly invested in stocks or bonds or some other enterprise which generally results in the acquisition of more equipment or the hiring of more people, both of which are essential to reducing unemployment and getting the economy back moving again.

Well, Treasury Secretary Geithner was testifying before the Congress about the possibility of imposing penalties on China because of its currency policies. According to an article in Friday's Washington Times—on the front page:

While taking his toughest stance to date on China's need to speed up the pace of currency reform, Treasury Secretary Timothy F. Geithner echoed China's point that doing that by itself will not eliminate the gigantic $230 billion trade deficit with China or restore millions of manufacturing jobs lost in the recession.

Continuing to quote from the article:

''Americans also must save more and invest more while consuming less of the world's bounty,'' he said, ''to bring a better balance to trade.''

He is right. America does need to save more and invest more. That is the way you restore not just the manufacturing jobs lost in the recession but a lot of the other jobs as well.

Reporting on the same story in another newspaper, Secretary Geithner is quoted as saying:

We are concerned . . . that the pace of appreciation has been too slow. The most important things we can do to make manufacturing stronger in the United States are going to be about the policies we pursue in the United States.

I think he is right and that the policies we have to pursue are the policies of savings and investment—exactly what he said. It may be fine for the U.S. economy to spend more money, but the reality is, each of our families and our businesses are better off if we save and invest at this important time in our history.

So let there be no mistake; the Secretary's promotion of savings and investment is contrary to this Keynesian notion that all we have to do is spend more money and the economy will get better. There is a need to save and a need to invest. That is what enables businesses to create more jobs.

I think it is very important to remind everyone that economic growth stems from combining three separate inputs—labor, capital, and technology. These three factors of production result in output that we can then consume. Without labor, without capital—that is the savings and investment part—and technology, which enhances our productivity, there can be no consumption. Focusing on policies that stimulate consumption targets the wrong side of the equation.

In order to get the economy going, we need to focus on the inputs, and that is where the second philosophy of economic growth comes in. Some people refer to it as supply-side economics. The fundamental principle of supply-side economics is that people work harder and take more risks when there are more opportunities for economic gain and less government intrusion.

Translating this economic philosophy into policy means reducing government consumption by cutting spending; thus, leaving resources in the private sector. It also means not raising taxes on anyone, especially in these difficult economic times—certainly not on the very employers that we count on to hire more workers. Who employs 25 percent of our workplace? Small businesses. Who would bear the brunt of tax increases in the upper two brackets? Small businesses. So the last thing we should be doing is raising taxes on anyone, most especially our small businesses to which we are looking to produce more jobs.

There is plenty of evidence that the economic theory I am talking about works in practice. We have abundant evidence of what works and what does not. A recent study was conducted by Harvard economists Alberto Alesina and Silvia Ardagna, who recently studied more than 100 fiscal adjustments in 21 separate countries over the past 40 years. The countries are all in the OECD. These are the more economically advanced countries of the world.

The fiscal adjustments that led to economic expansions were generally based around spending cuts. By contrast, the adjustments that led to economic recessions were based around tax increases. Thus, spending cuts, not tax hikes, appear to be the more effective strategy for deficit reduction.

Using data from more than 90 different OECD countries, Alesina and Ardagna also compared the relative benefits of spending increases and tax cuts. Their conclusion: Tax cuts are a much better way to spur economic growth.

Unfortunately, the current administration and Congress have done the exact opposite of what these two economists from Harvard have proposed. They have dramatically increased Federal spending and are now threatening to implement a massive tax hike, exactly the wrong prescription. I believe it is long past time for Congress to consider an alternative strategy, a strategy that rejects misguided income tax increases and, instead, focuses on targeted spending reductions; a strategy that lowers our corporate tax rate, which is the second highest of all of the OECD countries; a strategy that blocks unelected Federal bureaucrats from imposing new energy taxes on small businesses and middle-class households; a strategy that restructures our three biggest entitlement programs—Social Security, Medicare, and Medicaid—to prevent a future fiscal crisis; a strategy that reins in overall health care costs through market-oriented, consumer-driven reforms; a strategy that promotes free trade across the globe and strengthens our bilateral relationships in the process; a strategy that embraces clear, transparent fiscal regulations to end taxpayer bailouts and discourage excessive leveraging.

These are just some of the recommendations that come from the Republican side of the aisle. I note that they track very closely a piece that four economists and George Shultz, a former Cabinet member—in fact, two different Secretaries in the Cabinet of the President of the United States—George Shultz, Michael Boskin, John Cogan, Allan Meltzer, and John Taylor. They wrote a piece in the September 16 Wall Street Journal called ''Principles for Economic Revival.'' These principles track very closely the principles I have just identified and provide what I think is a very good blueprint for moving forward.

Just a final note. I would note parochially that starting in the third paragraph of their piece: ''The Noble Prize-winning economist Edward Prescott'' is from Arizona State University. I visited with Dr. Prescott, and I can affirm the things he teaches in his classes as well as what he teaches by his writings are the principles upon which we can build economic growth. They are what I said in the very beginning of my remarks. They are the principles of incentive for more economic output and reward.

He talks, in this piece, about the way higher tax rates on labor are associated with the reductions in the labor output, and therefore the productivity of the country, the wages of the people, and the economic condition of the country.

Also, the authors have a very interesting chart in this Wall Street Journal piece called ''The Cost of Washington.'' It is astonishing to see on paper the cost of World War I—in fact, the cost of the Civil War before that, the cost of World War II—pretty high. Then it went back down again. These are all costs as a percent of GDP.

Now when we have the biggest gross domestic product ever, dramatically larger even than what we had in World War II, we have costs of the Federal Government that exceed even the cost as a percentage of GDP of World War II.

The President's folks, as well as those who advise Congress, have all said this is unsustainable. It is one of the reasons it is time for us, as I said, to get back to principles for economic revival and focus on reducing unnecessary spending and making certain that, especially in these times, we resist the notion of raising taxes on any Americans.

I ask unanimous consent this Wall Street Journal op-ed be printed in the RECORD.

There being no objection, the material was ordered to be printed in the RECORD, as follows:

[From the Wall Street Journal, Sept. 16, 2010]

PRINCIPLES FOR ECONOMIC REVIVAL

(By George P. Shultz, Michael J. Boskin, John F. Cogan, Allan Meltzer and John B. Taylor)

America's financial crisis, deep recession and anemic recovery have largely been driven by economic policies that have deviated from proven fact-based principles. To return to prosperity we must get back to these principles.

The most fundamental starting point is that people respond to incentives and disincentives. Tax rates are a great example because the data are so clear and the results so powerful. A wealth of evidence shows that high tax rates reduce work effort, retard investment and lower productivity growth. Raise taxes, and living standards stagnate.

Nobel Prize-winning economist Edward Prescott examined international labor market data and showed that changes in tax rates on labor are associated with changes in employment and hours worked. From the 1970s to the 1990s, the effective tax rate on work increased by an average of 28% in Germany, France and Italy. Over that same period, work hours fell by an average of 22% in those three countries. When higher taxes reduce the reward for work, you get less of it.

Long-lasting economic policies based on a long-term strategy work; temporary policies don't. The difference between the effect of permanent tax rate cuts and one-time temporary tax rebates is also well-documented. The former creates a sustainable increase in economic output, the latter at best only a transitory blip. Temporary policies create uncertainty that dampen economic output as market participants, unsure about whether and how policies might change, delay their decisions.

Having ''skin in the game,'' unsurprisingly, leads to superior outcomes. As Milton Friedman famously observed: ''Nobody spends somebody else's money as wisely as they spend their own.'' When legislators put other people's money at risk—as when Fannie Mae and Freddie Mac bought risky mortgages—crisis and economic hardship inevitably result. When minimal co-payments and low deductibles are mandated in the insurance market, wasteful health-care spending balloons.

Rule-based policies provide the foundation of a high-growth market economy. Abiding by such policies minimizes capricious discretionary actions, such as the recent ad hoc bailouts, which too often had deleterious consequences. For most of the 1980s and '90s monetary policy was conducted in a predictable rule-like manner. As a result, the economy was far more stable. We avoided lengthy economic contractions like the Great Depression of the 1930s and the rapid inflation of the 1970s.

The history of recent economic policy is one of massive deviations from these basic tenets. The result has been a crippling recession and now a weak, nearly nonexistent recovery. The deviations began with policies—like the Federal Reserve holding interest rates too low for too long—that fueled the unsustainable housing boom. Federal housing policies allowed down payments on home loans as low as zero. Banks were encouraged to make risky loans, and securitization separated lenders from their loans. Neither borrower nor lender had sufficient skin in the game. Lax enforcement of existing regulations allowed both investment and commercial banks to circumvent long-established banking rules to take on far too much leverage. Regulators, not regulations, failed.

The departures from sound principles continued when the Fed and the Treasury responded with arbitrary and unpredictable bailouts of banks, auto companies and financial institutions. They financed their actions with unprecedented money creation and massive issuance of debt. These frantic moves spooked already turbulent markets and led to the financial panic.

More deviations occurred when the government responded with ineffective temporary stimulus packages. The 2008 tax rebate and the 2009 spending stimulus bills failed to improve the economy. Cash for clunkers and the first-time home buyers tax credit merely moved purchases forward by a few months.

Then there's the recent health-care legislation, which imposes taxes on savings and investment and gives the government control over health-care decisions. Fannie Mae and Freddie Mac now sit with an estimated $400 billion cost to taxpayers and no path to resolution. Hundreds of new complex regulations lurk in the 2010 financial reform bill with most of the critical details left to regulators. So uncertainty reigns and nearly $2 trillion in cash sits in corporate coffers.

Since the onset of the financial crisis, annual federal spending has increased by an extraordinary $800 billion—more than $10,000 for every American family. This has driven the budget deficit to 10% of GDP, far above the previous peacetime record. The Obama administration has proposed to lock a sizable portion of that additional spending into government programs and to finance it with higher taxes and debt. The Fed recently announced it would continue buying long-term Treasury debt, adding to the risk of future inflation.

There is perhaps no better indicator of the destructive path that these policy deviations have put us on than the federal budget. The nearby chart puts the fiscal problem in perspective. It shows federal spending as a percent of GDP, which is now at 24%, up sharply from 18.2% in 2000.

Future federal spending, driven mainly by retirement and health-care promises, is likely to increase beyond 30% of GDP in 20 years and then keep rising, according to the Congressional Budget Office. The reckless expansions of both entitlements and discretionary programs in recent years have only added to our long-term fiscal problem.

As the chart shows, in all of U.S. history, there has been only one period of sustained decline in federal spending relative to GDP. From 1983 to 2001, federal spending relative to GDP declined by five percentage points. Two factors dominated this remarkable period. First was strong economic growth. Second was modest spending restraint—on domestic spending in the 1980s and on defense in the 1990s.

The good news is that we can change these destructive policies by adopting a strategy based on proven economic principles:

First, take tax increases off the table. Higher tax rates are destructive to growth and would ratify the recent spending excesses. Our complex tax code is badly in need of overhaul to make America more competitive. For example, the U.S. corporate tax is one of the highest in the world. That's why many tax reform proposals integrate personal and corporate income taxes with fewer special tax breaks and lower tax rates.

But in the current climate, with the very credit-worthiness of the United States at stake, our program keeps the present tax regime in place while avoiding the severe economic drag of higher tax rates.

Second, balance the federal budget by reducing spending. The publicly held debt must be brought down to the pre-crisis safety zone. To do this, the excessive spending of recent years must be removed before it becomes a permanent budget fixture. The government should begin by rescinding unspent ''stimulus'' and TARP funds, ratcheting down domestic appropriations to their prebinge levels, and repealing entitlement expansions, most notably the subsidies in the health-care bill.

The next step is restructuring public activities between federal and state governments. The federal government has taken on more responsibilities than it can properly manage and efficiently finance. The 1996 welfare reform, which transferred authority and financing for welfare from the federal to the state level, should serve as the model. This reform reduced welfare dependency and lowered costs, benefiting taxpayers and welfare recipients.

Third, modify Social Security and health-care entitlements to reduce their explosive future growth. Social Security now promises much higher benefits to future retirees than to today's retirees. The typical 30-year-old today is scheduled to get an inflation-adjusted retirement benefit that is 50% higher than the benefit for a typical current retiree.

Benefits paid to future retirees should remain at the same level, in terms of purchasing power, that today's retirees receive. A combination of indexing initial benefits to prices rather than to wages and increasing the program's retirement age would achieve this goal. They should be phased-in gradually so that current retirees and those nearing retirement are not affected.

Health care is far too important to the American economy to be left in its current state. In markets other than health care, the legendary American shopper, armed with money and information, has kept quality high and costs low. In health care, service providers, unaided by consumers with sufficient skin in the game, make the purchasing decisions. Third-party payers—employers, governments and insurance companies—have resorted to regulatory schemes and price controls to stem the resulting cost growth.

The key to making Medicare affordable while maintaining the quality of health care is more patient involvement, more choices among Medicare health plans, and more competition. Co-payments should be raised to make patients and their physicians more cost-conscious. Monthly premiums should be lowered to provide seniors with more disposable income to make these choices. A menu of additional Medicare plans, some with lower premiums, higher co-payments and improved catastrophic coverage, should be added to the current one-size-fits-all program to encourage competition.

Similarly for Medicaid, modest co-payments should be introduced except for preventive services. The program should be turned over entirely to the states with federal financing supplied by a "no strings attached" block grant. States should then allow Medicaid recipients to purchase a health plan of their choosing with a risk-adjusted Medicaid grant that phases out as income rises.

The 2010 health-care law undermined positive reforms underway since the late 1990s, including higher co-payments and health savings accounts. The law should be repealed before its regulations and price controls further damage availability and quality of care. It should be replaced with policies that target specific health market concerns: quality, affordability and access. Making out-of-pocket expenditures and individual purchases of health insurance tax deductible, enhancing health savings accounts, and improving access to medical information are keys to more consumer involvement. Allowing consumers to buy insurance across state lines will lower the cost of insurance.

Fourth, enact a moratorium on all new regulations for the next three years, with an exception for national security and public safety. Going forward, regulations should be transparent and simple, pass rigorous cost-benefit tests, and rely to a maximum extent on market-based incentives instead of command and control. Direct and indirect cost estimates of regulations and subsidies should be published before new regulations are put into law.

Off-budget financing should end by closing Fannie Mae and Freddie Mac. The Bureau of Consumer Finance Protection and all other government agencies should be on the budget that Congress annually approves. An enhanced bankruptcy process for failing financial firms should be enacted in order to end the need for bailouts. Higher bank capital requirements that rise with the size of the bank should be phased in.

Fifth, monetary policy should be less discretionary and more rule-like. The Federal Reserve should announce and follow a monetary policy rule, such as the Taylor rule, in which the short-term interest rate is determined by the supply and demand for money and is adjusted through changes in the money supply when inflation rises above or falls below the target, or when the economy goes into a recession. When monetary policy decisions follow such a rule, economic stability and growth increase.

In order to reduce the size of the Fed's bloated balance sheet without causing more market disruption, the Fed should announce and follow a clear and predictable exit rule, which describes a contingency path for bringing bank reserves back to normal levels. It should also announce and follow a lender-of-last-resort rule designed to protect the payment system and the economy—not failing banks. Such a rule would end the erratic bailout policy that leads to crises.

The United States should, along with other countries, agree to a target for inflation in order to increase expected price stability and exchange rate stability. A new accord between the Federal Reserve and Treasury should reestablish the Fed's independence and accountability so that it is not called on to monetize the debt or engage in credit allocation. A monetary rule is a requisite for restoring the Fed's independence.

These pro-growth policies provide the surest path back to prosperity.

Mr. KYL. I suggest the absence of a quorum.

The ACTING PRESIDENT pro tempore. The clerk will call the roll.

The bill clerk proceeded to call the roll.

Mr. KYL. Mr. President, I ask unanimous consent the order for the quorum call be rescinded.

The ACTING PRESIDENT pro tempore. Without objection, it is so ordered.

RESERVATION OF LEADER TIME

The ACTING PRESIDENT pro tempore. Under the previous order, leadership time is reserved.

MORNING BUSINESS

The ACTING PRESIDENT pro tempore. There will be a period for the transaction of morning business until 3 p.m., with Senators permitted to speak therein for up to 10 minutes each.

Mr. KYL. Mr. President, I suggest the absence of a quorum.

The ACTING PRESIDENT pro tempore. The clerk will call the roll.

The bill clerk proceeded to call the roll.

Mr. JOHANNS. Mr. President, I ask unanimous consent that the order for the quorum call be rescinded.

The ACTING PRESIDENT pro tempore. Without objection, it is so ordered.

SOUTH KOREAN FREE TRADE AGREEMENT

Mr. JOHANNS. Mr. President, I rise today to ask a pretty straightforward question: Why on Earth is this administration standing by and watching our global competitors gain the upper hand over U.S. businesses?

Last week, the European Union announced that it is taking steps to approve an agreement with South Korea. I have to tip my hat to the Europeans. South Korea represents the 12th largest economy, and Europe's businesses are now one step closer to much greater access to the 12th largest economy in the world. Meanwhile, the United States fails to act on a trade agreement negotiated with South Korea more than 3 years ago, ready for action, actually. Zero action, though, has been taken since this agreement has been finalized by this administration. We all know it is up to the President to send the agreement to Congress for approval before it can go into effect. But that has not happened. On the other hand, other nations are taking advantage of opportunities to save their businesses billions of dollars, while the United States is simply stuck in neutral.

Under our agreement with Korea, most fees our exporters pay—tariffs—to Korea would be completely eliminated, saving U.S. businesses literally billions of dollars. In fact, nearly 95 percent of our exports of consumer and industrial products would become duty free within 3 years and the rest would be eliminated over time. Nearly two-thirds of our agricultural exports would also become duty free under this agreement, and perhaps most significant is the estimate by the U.S. International Trade Commission itself that our agreement with South Korea would add $10 to $12 billion to our economy.

So what does this mean in real dollars for real businesses? Well, the agreement would increase U.S. exports by about $10 billion annually. The way I look at it, our economy could use a $10 billion boost. Instead, our agreement with South Korea languishes, and we sit on the sidelines while other countries clearly are gaining the upper hand and we are losing this marketplace.

If we could ever enact this agreement, American job creators could fairly compete in the South Korean market. Instead, they are at a distinct disadvantage, and the key to a level playing field—this trade agreement—is collecting dust on a shelf at the White House.

The time for the United States to act on our agreement with Korea is not only now, it should have been months ago. Our failure to act is inhibiting job creation, inspiring our competitors, who are winning, and frustrating our trading partners. Last week was just the latest evidence that our trading partners have lost patience with us and decided to find new dance partners. You see, our trading partners look at this and say: There is no leadership.

In June, I came to the Senate floor to express my concern over reports that an official from the South Korean Embassy said the following: